

# Financial Section

## Financial Review

The following is a summary of the consolidated business results for the fiscal year ended March 31, 2018.

### Area of Business

ONO PHARMACEUTICAL CO., LTD. and its subsidiaries are engaged in the pharmaceuticals business.

### Results for Fiscal Year Ended March 31, 2018

In the current consolidated fiscal year, mild recovery of Japanese economy continued, as indicated by signs including gradual improvement in the employment environment, capital investment, and personal consumption by the financial policies and measures of the government and the Bank of Japan.

The pharmaceutical industry was faced with a decreased success rate of drug discovery and increased R&D costs. In the domestic market, the strengthening of healthcare cost reduction measures continued through the introduction of new measures to promote the use of generics in addition to the National Health Insurance (NHI) drug price reduction. Thereby, the business conditions remained difficult for research-based pharmaceutical companies.

Under such circumstances, the Group reinforced its R&D structure under our corporate philosophy “Dedicated to Man’s Fight against Disease and Pain” by combining its own original drug discovery knowhow with cutting-edge science and technologies acquired from around the world to create innovative drugs. In addition, the Group directed efforts into improving efficiencies across all corporate management areas, while seeking to enhance dissemination of scientific information for further product value improvement. The Group’s business results for the current consolidated fiscal year are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Revenue	¥ 261,836	\$ 2,470,150
Operating profit	60,684	572,493
Profit for the year (attributable to owners of the parent company)	50,284	474,375

### Revenue

Revenue totaled ¥261,836 million (US\$2,470,150 thousand), an increase of ¥17,039 million (US\$160,742 thousand), up 7.0% over the previous consolidated fiscal year.

- The use of OPDIVO Intravenous Infusion for malignant tumor expanded for the treatment of renal cell cancer and head and neck cancer approved a fiscal year ago, gastric cancer approved in September 2017, and etc. However sales of OPDIVO decreased by ¥13.8billion (-13.3%) year on year to ¥90.1 billion (US\$849,973 thousand) due to the impact of drug price revision made in February 2017.
- Sales of our key new products: GLACTIV Tablets for type-2 diabetes decreased by 6.7% year-on-year to ¥27.4 billion (US\$258,467 thousand), ORENCIA for rheumatoid arthritis increased by 22.0% year-on-year to ¥14.1 billion (US\$133,307 thousand), FORXIGA Tablets for type-2 diabetes increased by 41.8% year-on-year to ¥11.1 billion (US\$104,443 thousand), RECALBON Tablets for osteoporosis decreased by 3.3% year-on-year to ¥10.9 billion (US\$103,023 thousand), the combined sales of EMEND Capsules and PROEMEND for Intravenous Injection for chemotherapy-induced nausea and vomiting increased by 0.7% year-on-year to ¥9.9 billion (US\$93,853 thousand), RIVASTACH Patch for Alzheimer’s disease increased by 0.3% year-on-year to ¥8.9 billion (US\$83,790 thousand), KYPROLIS for Intravenous Infusion for multiple myeloma increased by 182.4% year-on-year to ¥5.5 billion (US\$52,223 thousand), PARSABIV Intravenous Injection for Dialysis for secondary hyperparathyroidism in patients on hemodialysis increased by 1660.3% year-on-year to ¥3.4 billion (US\$32,355 thousand).
- On the other hand, sales of the main long-term listed products were affected by competing product and the new generic use promotion measures. OPALMON Tablets for peripheral circulatory disorder decreased by 15.6% year-on-year to ¥14.4 billion (US\$135,545 thousand), ONON Capsules for bronchial asthma and allergic rhinitis decreased by 19.5% year-on-year to ¥5.5 billion (US\$51,507 thousand), ONON Dry Syrup decreased by 18.8% year-on-year to ¥3.3 billion (US\$31,449 thousand).
- Royalty and Other Revenue increased by 83.7% year on year to ¥55.9 billion (US\$527,813 thousand) due to increase of the royalty for OPDIVO from Bristol-Myers Squibb (BMS) and etc.

## Profit and Loss

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Operating profit for the current consolidated fiscal year totaled ¥60,684 million (US\$572,493 thousand), a decrease of ¥11,599 million (US\$109,427 thousand), down 16.0% over the previous consolidated fiscal year.

- Cost of sales was down 0.2%, or ¥133 million (US\$1,256 thousand), from the previous consolidated fiscal year to ¥65,391 million (US\$616,897 thousand).
- R&D costs were up 19.7%, or ¥11,314 million (US\$106,739 thousand), from the previous consolidated fiscal year to ¥68,821 million (US\$649,251 thousand) due to vigorous development investment related to OPDIVO.
- Selling, general, and administrative expenses were up 9.7%, or ¥6,006 million (US\$56,665 thousand), from the previous consolidated fiscal year to ¥68,055 million (US\$642,032 thousand) due to increase of operating expenses for OPDIVO and new products including PARSABIV and etc.
- Other income includes gain on sale of non-current assets ¥2.9 billion (US\$26,955 thousand). Anti-PD-1 antibody patent infringement litigation was settled with Merck & Co., Inc., USA. As the result, other income includes settlement revenue ¥17.8 billion (US\$168,264 thousand) in the previous consolidated fiscal year.
- Profit for the year (attributable to owners of the parent company) was down 9.9%, or ¥5,509 million (US\$51,974 thousand), from the previous consolidated fiscal year to ¥50,284 million (US\$474,375 thousand), with a decrease in profit before tax.

## Consolidated Cash Flows

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The cash and cash equivalents balance at the end of the consolidated fiscal year was ¥65,273 million (US\$615,781 thousand), down 55.4%, or ¥81,051 million (US\$764,629 thousand) from the previous year's figure of ¥146,323 million (US\$1,380,410 thousand). The main factors were cash flows from operating activities ended in a positive balance of ¥15,727 million (US\$148,365 thousand), cash flows from investing activities ended in a negative cash flow balance of ¥34,189 million (US\$322,534 thousand), and cash flows from financing activities ended in a negative cash flow balance of ¥62,549 million (US\$590,082 thousand).

### ■ Cash Flows from Operating Activities

Cash flows from operating activities for the current consolidated fiscal year ended in a positive cash flow balance of ¥15,727 million (US\$148,365 thousand), a year-on-year decrease of ¥58,723 million. The main factors were profit before tax ended in a positive balance of ¥63,922 million (US\$603,037 thousand), income taxes paid of ¥36,370 million (US\$343,113 thousand), and other including payment of consumption taxes and etc. ended in a negative balance of ¥17,138 (US\$161,679 thousand).

### ■ Cash Flows from Investing Activities

Cash flows from investing activities for the current consolidated fiscal year ended in a negative balance of ¥34,189 million (US\$322,534 thousand) (The cash flows for the previous consolidated fiscal year ended in a negative balance of ¥17,989 million). The main factors were payments into time deposits of ¥30,800 million (US\$290,566 thousand), purchases of property, plant, and equipment of ¥15,620 million (US\$147,358 thousand), purchases of intangible assets of ¥14,218 million (US\$134,136 thousand), and proceeds from sales and redemption of investments of ¥21,315 million (US\$201,083 thousand).

### ■ Cash Flows from Financing Activities

Cash flows from financing activities for the current consolidated fiscal year ended in a negative balance of ¥62,549 million (US\$590,082 thousand) (The cash flows for the previous consolidated fiscal year ended in a negative balance of ¥20,552 million). The main factors were purchases of treasury shares of ¥38,773 (US\$365,779 thousand) and the dividends paid to owners of the parent company of ¥23,414 million (US\$220,890 thousand).

## Investment in Plant and Equipment

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Plant and equipment investment during the current consolidated fiscal year totaled ¥18,593 million (US\$175,407 thousand). This included investment in enhancement and maintenance of research facilities (¥6,496 million, or US\$61,285 thousand), manufacturing facilities (¥6,227 million, or US\$58,741 thousand), and business facilities (¥5,870 million, or US\$55,382 thousand). The main components of investment in plant and equipment during the current consolidated fiscal year were factory facilities under construction in Yamaguchi Prefecture and the Tokyo Building newly established in Chuo ku, Tokyo.